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Working Documents

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DOCUMENT 1-978/83

Report

drawn up on behalf of the Committee on External Economic Relations

on the proposal from the Commission of the European Communities to the Council (Doc. 1-637/83 - 8066/83)

for a Regulation on the conclusion of the Protocol concerning the arrangements to be applied during 1983 in the framework of the Decision adopted by the EEC-Cyprus Association Council on 24 November 1980 establishing the process into the second stage of the Association Agreement between the European Economic Community and the Republic of Cyprus

Rapporteur: Mrs Maria Fabrizia BADUEL GLORIOSO

PE 86.452/fin.

By letter of 3 August 1983, the President of the Council of the European Communities requested the European Parliament to deliver an opinion, pursuant to Article 238 of the EEC Treaty, on the recommendation from the Commission of the European Communities to the Council for a regulation on the conclusion of the protocol concerning the arrangements to be applied during 1983 in the framework of the decision adopted by the EEC-Cyprus Association Council on 24 November 1980 establishing the process into the second stage of the Association Agreement between the European Economic Community and the Republic of Cyprus.

On 12 September 1983, the President of the European Parliament referred this proposal to the Committee on External Economic Relations as the committee responsible.

At its meeting of 27 September 1983, the Committee on External Economic Relations appointed Mrs Baduel Glorioso rapporteur.

The Committee considered and approved the Commission's proposal and the draft report at its meeting of 3 November 1983.

The following took part in the vote: Sir Fred Catherwood, chairman; Mr van Aerssen, Mr Seal, vice-chairmen; Mrs Baduel-Glorioso, rapporteur; Mr Blumenfeld, Mr Hooper, Mr Mommersteeg, Mrs Moreau, Mr Pesmazoglou, Mr Rieger, Sir James Scott-Hopkins (deputizing for Sir Jack Stewart-Clark), Mr Spencer, Sir Fred Warner, Mr Ziagas.

This report was tabled on 3 November 1983.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Regulation (EEC) on the conclusion of the protocol concerning the arrangements to be applied during 1983 in the framework of the decision adopted by the EEC-Cyprus Association Council on 24 November 1980 establishing the process into the second stage of the Association Agreement between the European Economic Community and the Republic of Cyprus

The European Parliament,

- A. having regard to the proposal made by the Commission to the Council (Doc. COM(83) 389 final)¹,
- B. having been consulted by the Council pursuant to Article 238 of the EEC Treaty (Doc. 1-637/83),
- C. having regard to the resolution adopted by the European Parliament (Doc. 1-501/83) on 12 October 1983,
- D. having regard to the report by the Committee on External Economic Relations (Doc. 1-978/83),
- E. whereas improved economic and trade relations between the Community and the Republic of Cyprus would facilitate an equitable and lasting solution to the Cyprus problem which would ensure the unity and integrity of the island, pursuant to the recent resolution adopted by the United Nations General Assembly on 13 May 1983 (A/Res./37/253),
- F. having regard to the particular importance and special role of the Republic of Cyprus in international relations and in particular in the complex political equilibrium of the eastern Mediterranean,

¹ OJ No. C 183 of 9 July 1983, pp 3 and 4

- G. whereas the creation of cooperation links between the Community and countries bordering on the Mediterranean implies concessions on the part of the Community's Mediterranean countries,
- H. having regard to the vote on the Commission proposal,
1. Confirms the need to consolidate economic and trade relations with Cyprus;
 2. Welcomes the outcome of the negotiations on the trade arrangements which should be felt by 1983, for the benefit of the population as a whole, and recalls the Community's undertaking to embark as soon as possible on the attainment of a customs union between the Community and Cyprus;
 3. Recalls the Community's undertaking to start before the end of 1983, negotiations on the attainment of the Customs Union between the Community and Cyprus;
 4. Draws attention to the need to pursue a Community Mediterranean policy that takes account of the interests of the Mediterranean regions of the EEC and of non-member Mediterranean states in view of the forthcoming enlargement.
 5. Instructs its President to forward this resolution and the accompanying report to the Commission and the Council.

EXPLANATORY STATEMENTI. INTRODUCTION

The Agreement concluded by the Community with Cyprus in 1972 is an Association Agreement designed gradually to bring about Customs Union.

Its aim is therefore to create particularly close economic ties of much greater scope and political motivation than the cooperation, trade, industrial, technical and financial agreements concluded by the Community with other Mediterranean countries, such as the countries of the Maghreb and the Mashreq, Israel and Yugoslavia.

The very nature of the EEC-Cyprus Association Agreement bears witness to the fact that the Community is aware of the special political and strategic importance of Cyprus in the eastern Mediterranean.

The way in which the various phases of the Agreement have been gradually implemented shows, however, that the Community has not in fact been consistent in its political resolve to establish particularly close economic relations with Cyprus in keeping with the political assessments that prompted the Community to conclude an Association Agreement with it.

The slowness with which the negotiations were conducted on implementation of the various phases of the Agreement and in particular the inadequacy of the trade concessions granted to Cyprus suggest that there is some discrepancy between the political motivation and actual trade concessions.

II. THE ASSOCIATION AGREEMENT

The European Community and Cyprus concluded an Association Agreement which was signed on 19 December 1972 and entered into force on 1 June 1973.

It provides for tariff reductions on numerous products and includes clauses aimed at bringing about technical and industrial cooperation.

The Agreement was to be implemented in two stages, but the first stage, which ended on 30 June 1977, was extended until 30 June 1979 in the form of an additional protocol which entered into force on 1 June 1978. At the end of 1979, the Community was not prepared to move into the second stage and the

first stage was again extended until 31 December 1980. At the sixth meeting of the EEC-Cyprus Association Council, on 24 November 1980, it was decided as follows:

1. An Additional Protocol will be negotiated between the Community and Cyprus before the end of the year to extend the present arrangements until 31 December 1981;
2. As from the beginning of 1981, the parties will enter into negotiations to work out the trade arrangements to apply in 1982 and 1983;
3. As from 1982, the parties will negotiate the conditions and procedures for the implementation of Article 2(3) of the EEC-Cyprus Association Agreement;
4. It is understood that the advantages envisaged must benefit the island's population as a whole.

• Following the appropriate negotiations, a protocol concerning the arrangements to be applied during 1981 was signed on 18 March 1981 and entered into force on 7 July 1981.

As regards the commercial regime for 1982-1983 and pending the conclusion of a protocol concerning that regime, the Community and Cyprus extended autonomously the validity of the arrangements in force in 1981 up to 30 June 1983.

Subsequently, a new protocol was negotiated and signed on 26 July 1983 concerning the arrangements to be applied during 1983.

The European Parliament is now required to deliver its opinion on the protocol concerning the arrangement to be applied during 1983.

The Commission has put forward a regulation concluding a protocol and the text of the protocol itself.

As stated previously by the European Parliament⁽¹⁾ the new protocol contains only minor concessions:

- the quota of table grapes to be exported to the Community at a reduced tariff rate of 60% for a limited period (from 8 June to 31 July) was increased from 7,000 tonnes to 7,500 tonnes. The export period was not extended;
- salad beetroot: a reduction of duty by 50% within the limit of a Community tariff quota of 1,500 tonnes;
- okra: 50% reduction of duty.

(1) See report drawn up on behalf of the Committee on External Economic Relations on EEC-Cyprus economic and trade relations. Rapporteur: Mrs BADUEL GLORIOS (Doc. 1-501/83, p.8)

It will be recalled that the trade provisions of the protocol under consideration have been implemented by the Community under Council Regulation (EEC) No. 1922/83 (OJ No. L 191, 15.7.1983) since July 1983.

The protocol will enter into force as soon as the necessary procedures have been completed and, as far as the Community is concerned, following consultation of the European Parliament.

III. THE ECONOMY OF CYPRUS

Despite the economic and political difficulties encountered in the last 10 years, the economy of Cyprus has in general displayed considerable dynamism and a rare ability to adapt.

Economic growth in 1981 (2.5%) was lower than in 1980. Nevertheless, tourism continued to increase rapidly and the industrial sector, composed of small and medium-sized industries, was particularly dynamic and quite successful. Inflation stabilised at 12%. The trade deficit has increased fairly constantly in the past few years and rose to \$662 million with the world and \$47 million with the EEC in 1980 (see Table 1).

TABLE NO. 1
(Cypriot trade balance)¹

	in \$ million			
<u>Total trade balance</u>	1978	1979	1980	1981
with the world	- 404	- 544	- 662	
with the EEC	- 307	- 383	- 437	
<u>Agricultural trade balance</u>				
with the world	19	19	2	
with the EEC	21	25	2	
<u>Non-agricultural trade balance</u>				
with the world	- 424	- 563	- 664	
with the EEC	- 328	- 407	- 439	

¹ Mission of Cyprus to the European Communities

The following tables show the trend of imports and exports between the Community and Cyprus.

TABLE No. 2

EEC TRADE WITH CYPRUS

	Imports (EEC 10)		Exports (EEC 10)		Trade balance million ECU
	in 10 million ECU	1970=100	in 10 million ECU	1970=100	
1970	86	100	133	100	47
1971	88	102	159	120	71
1972	84	98	184	138	100
1973	93	108	221	166	128
1974	85	99	242	182	157
1975	75	87	179	135	104
1976	128	149	262	197	134
1977	156	181	333	250	177
1978	187	217	399	300	212
1979	204	237	463	348	259
1980	269	313	579	435	310
1981	273	317	696	523	423
1982	297		738		441

Source: Eurostat

PREFERENTIAL ARRANGEMENT APPLIED BY THE COMMUNITY TO EXPORTS FROM CYPRUS

Agricultural products:

New potatoes : from 1/1 to 15/5: 60% reduction in the CCT

(the EEC accounts for from 16/5 to 30/6: 55% reduction in the CCT
84% of Cypriot potato up to a maximum tariff quota of 60,000 tonnes
exports)

Lemons and grapefruit: Lemons: 40% reduction

(the EEC accounts for Grapefruit: 80% reduction
75% of Cypriot exports)

Wine : 70 - 75% reduction up to the maximum tariff quota

Fresh grapes : 60% reduction (7,000 tonne tariff quota from
8/6 to 31/7)

(the EEC accounts for
76% of Cypriot fresh
grape exports)

Non-agricultural products

The Community guarantees the duty-free entry of almost all Cyprus' industrial products except for petroleum products - which are excluded by the Agreement - synthetic fibres and men's underwear which are subject to tariff quotas.

Cyprus for its part offers a 35% reduction in customs duty on a wide range of Community goods.

Cypriot exports to the Community:

Exports comprise 58% agricultural and 42% non-agricultural products.

Agricultural products:

New potatoes	:	34%	of total agricultural exports to the EEC
Lemons and grapefruit	:	13%	" " " "
Wine	:	12%	" " " "
Fresh grapes	:	10%	" " " "

(25% of the working population are employed in the agricultural sector)

Non-agricultural products:

Clothing	:	43%	of non-agricultural exports to the EEC
Travel goods, handbags	:	11.6%	" " "
Mineral fertilizers	:	15.6%	" " "

(32% of the working population are employed in the industrial sector)

Main products imported by Cyprus from the EEC:

Agricultural products:

<u>Products</u>	<u>Community share of total imports</u>
Cereals	35%
Sugar	91%
Feedingstuffs	58%

Non-agricultural products:

Cyprus buys 56% of the non-agricultural products it imports from the Community

Main products:

Machines, other than electric
Textile goods, other than made up
Transport equipment.

The following summary provides some clarification of the balance of payments situation. The balance of payments fell in 1980 despite the satisfactory export trend, firstly because of the increased cost of oil and lubricant imports, secondly because of the problems caused by inflation throughout Europe and the world and thirdly because of increased inflation in the country itself.

Total exports increased less in 1980 (15%) than in 1979 (23%) mainly because of a fall in international prices, particularly for some basic agricultural products. Despite the very competitive international climate industrial exports continued to increase at a fairly sustained rate (20%) in 1980 and played a more important role in total exports, increasing from 68% in 1979 to 71% in 1980.

The lower rate of economic growth in the country, combined with some restrictive credit and fiscal measures, helped to limit the growth rate of imports to 20% in 1980 compared with 26% in 1979. Fuel and lubricant imports accounted for 13% of the value of total imports in 1979 and 19% in 1980. The increase in imports of consumer goods declined somewhat, to 17.5% in 1980 compared with 23% in 1979.

The increase in imports of raw materials also slowed down to 7.4% in 1980 compared with 38% in 1979. This decline was particularly noticeable in the case of raw materials for the construction industry. Nevertheless, the economic situation of the country is in general satisfactory. The main negative aspect is the increase in unemployment from practically zero to 1.6% in 1979 and 2.1% in 1980.

In 1975 the gross national product fell by about 20% and private investments by about 55%, whereas unemployment reached a peak of 25%, mainly because of the invasion by Turkey. In the years that followed economic recovery was rapid partly because of external aid and the financial policy adopted by the government and partly because of considerable flexibility in the private sector. Between 1976 and 1978 the gross national product increased by about 12% a year.

During the third emergency economic plan for the period 1979-1981, the growth of the gross national product fell to 6% in 1979 and 4.3% in 1980. The industrial sector, almost entirely composed of small and medium-sized undertakings, continued to be the most productive sector. In the agricultural sector, the production trend was more or less constant, but its contribution to the gross national product was limited although it increased from 2% in previous years to about 11% in 1980. Tourism became an important contributor to the balance of payments: 350,000 tourists visited the island that year, bringing in about \$200 million.

IV. THE FINANCIAL PROTOCOL

The first EEC-Cyprus financial protocol, signed on 15 September 1977, entered into force on 1 January 1979 and is due to expire on 31 December 1983.

The directives for the negotiation of a second EEC-Cyprus financial protocol were adopted by the Council at its meeting of 30 June 1983. The negotiations between the Community and the Republic of Cyprus have been concluded and a protocol was initialled on 4 July 1983. The protocol provides for a total of 44 million ECU, of which 28 million are to consist of normal loans (from the European Investment Bank's own resources) and 16 million to come from the Community budget (10 million of which in the form of grants for economic and technical cooperation and interest rebates, and 6 million as loans on special conditions).

There is a provision that the protocol should last for 5 years, thus expiring on 31 December 1988.

The procedures for qualifying for aid under the protocol will be strictly based on those adopted within the framework of the 'second generation' of recently concluded protocols with Mediterranean partners.

It is understood that aid provided under the second EEC-Cyprus financial protocol must benefit the population of the island.

V. CONCLUSION

The EEC-Cyprus agreement is of special importance not only for economic reasons but also because of the political implications of the Community's economic relations with Cyprus.

The economic and social progress of the people of Cyprus must be safeguarded, as must the complex political equilibrium existing in Cyprus and the eastern Mediterranean region.

In conclusion, the European Parliament reaffirms its position¹ on the use to which the Second Financial Protocol is to be put, that is, for the benefit of the population of the island as a whole.

¹ See report by Mrs BADUEL GLORIOSO (Doc. 1-501/83)